

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

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TO SECSTATE WASHDC 5759

CINCLANT

COMCEDEFOR

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AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY MOSCOW P

AMEMBASSY OSLO

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

USMISSION NATO

C O N F I D E N T I A L REYKJAVIK 1258

E.O. 11652: GDS

TAGS: EEWT, IC, UR

SUBJECT: ICELAND - SOVIET UNION SIGN FIVE YEAR TRADE AGREEMENT

1. SUMMARY. ICELAND AND THE SOVIET UNION HAVE SIGNED TWO RECIPROCAL TRADE AGREEMENT PROTOCOLS FOR 1976-1980 BASED ON THE PROVISIONS OF THE 1953 TRADE AND PAYMENTS AGREEMENT BETWEEN THE TWO COUNTRIES AND A ONE YEAR OIL PURCHASE CONTRACT. SIGNIFICANT CHANGES IN THE NEW AGREEMENTS INCLUDE PAYMENTS IN HARD CURRENCY, A REDUCED AMOUNT OF OIL FOR ICELAND (SOVIETS CLAIM SHORTAGE BECAUSE OF PROSPECTIVE SALES TO US AND BECAUSE OF THEIR OWN CONSUMPTION NEEDS) AND POSSIBILITY OF MORE ICELANDIC EXPORTS  
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TO THE SOVIET UNION. THE NET RESULT IS LIKELY TO BE INCREASED

FINANCIAL DIFFICULTIES FOR ICELAND, ALREADY HARD PRESSED TO PAY ITS IMPORT BILLS.

2. BACKGROUND. IN EARLIER YEARS ICELANDIC-SOVIET TRADE WAS SUFFICIENTLY IN BALANCE THAT A BARTER SYSTEM WORKED FAIRLY WELL. INCREASED OIL PRICES ENDED THAT, AND AS A CONSEQUENCE ICELAND HAS A LARGE DEBT WITH THE SOVIET UNION. AT THE BEGINNING OF 1975 THE SOVIET UNION AGREED TO POSTPONE \$12 MILLION OF ICELAND'S DEBT UNTIL 1976. THIS DEBT WILL BE ROLLED OVER FOR ANOTHER YEAR. THE RUSSIANS HAVE INSISTED ON GOODS OR HARD CURRENCY FOR WHATEVER ADDITIONAL DEBT THE ICELANDERS RUN UP. ONE OF THE PROTOCOLS FORMALIZES THE RUSSIAN POSITION. HOWEVER, THE NEW AGREEMENT DOES NOT COMMIT PARTIES TO BUY, NOR DOES IT SPECIFY PRICES WHICH WOULD BE NEGOTIATED AT TIME OF PURCHASE.

3. OIL PURCHASES. WHILE THE OIL FIGURES IN THE FIVE-YEAR AGREEMENT ARE CONSISTENT WITH PAST OIL PURCHASES, THE ONE-YEAR CONTRACT JUST CONCLUDED FOR ACTUAL PURCHASES NEXT YEAR BY THE ICELANDERS REPRESENTS LESS THAN THE ICELANDERS SOUGHT. THEY ASKED FOR THE SAME AMOUNTS AGREED TO IN 1975 BUT WERE CUT ALMOST 25 PERCENT IN DISTILLATE FUEL. SOME SAVINGS CAN BE EFFECTED BECAUSE MORE HOMES ARE HEATED BY HOT WATER NOW THAN A YEAR AGO. BUT ICELAND WILL HAVE TO MAKE UP SOME OF THE DIFFERENCE FROM NON-SOVIET SUPPLIERS. FIGURES BELOW ARE THE AMOUNTS AGREED TO BY THE RUSSIANS FOR 1976 COMPARED WITH AMOUNTS AGREED TO IN 1975:

	1976	1975
DISTILLATE FUEL	230,000 MT	300,000 MT
RESIDUAL FUEL	100,000 MT	110,000 MT
MOTOR GASOLINE	80,000 MT	80,000 MT

4. ACCORDING TO GOI SOURCES, THE RUSSIANS CLAIMED THEY WERE UNABLE TO SUPPLY AS MUCH OIL AS WAS REQUESTED BECAUSE OF PROSPECTIVE SALES TO THE UNITED STATES. THEY ALSO POINTED OUT THAT IT HAD BECOME NECESSARY TO CURB SALES WITHIN THE SOVIET UNION.

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5. VALUE OF THE ONE-YEAR OIL CONTRACT AT CURRENT PRICES (FOB BLACK SEA OR BALTIC) IS 7.2 BILLION IKR (\$43 MILLION) COMPARED WITH LAST YEAR'S AGREEMENT FOR 6.0 BILLION IKR (\$50 MILLION).

6. PROSPECTS FOR NEW FIVE-YEAR AGREEMENT. IN 1974 ICELANDIC PURCHASES OF SOVIET GOODS COST TWICE AS MUCH AS SOVIET

IMPORTS OF ICELANDIC GOODS. MINISTRY OF COMMERCE SOURCES BELIEVE THAT THE NEW AGREEMENT WILL CONSIDERABLY REDUCE THE IMBALANCE. TAKING THE HIGHER FIGURES, ACCORDING TO ICELANDERS, THE NET RESULT WOULD BE A SLIGHT SURPLUS FOR THE RUSSIANS. THEY DO AGREE, HOWEVER, THAT THERE ARE NO COMMITMENTS, AND THUS THERE IS NO ASSURANCE THAT LAST YEAR'S TWO-TO-ONE RATION WOULD NOT BE REPEATED. THE AGREEMENT FIGURES ARE MERELY INDICATIVE OF INTENTIONS.

7. COMMENT. A COPY OF THE AGREEMENT IS BEING AIR POUCHED. AT BEST THE NEW AGREEMENT REPRESENTS AHOPE THAT SOME SEMBLANCE OF BALANCE CAN BE RESTORED TO ICELAND-SOVIET TRADE. MORE LIKELY THIS IS WISHFUL THINKING ON THE PART OF ICELANDERS, WHO ARE OTHERWISE AT A LOSS AS TO HOW THEY ARE DOING TO PLUG UP THE HOLES IN THEIR TRADE BALANCE. THEY ARE HEADED FOR A 19 BILLION IKR (\$115 MILLION) TRADE DEFICIT. ON THE OTHER HAND, THE RUSSIANS HAVE SAID THEY AREHARD PRESSED FOR FOREIGN EXCHANGE, SO IT IS NOT TOO SURPRISING THAT THEY ARE TAKING STEPS TO LIMIT ICELANDIC CREDIT. THE POLITICAL IMPLICATIONS, HOWEVER, SHOULD NOT BE OVERLOOKED. THE RUSSIANS WOULD NO DOUBT FIND IT POSSIBLE TO EXTEND FURTHER CREDIT IF POLITICAL CIRCUMSTANCES WARRANTED SUCH ACTION.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM, TRADE AGREEMENTS, FIVE YEAR PLAN, BALANCE OF PAYMENTS, CONTRACTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 06 NOV 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** CunninFX  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975REYKJA01258  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D750386-1136  
**From:** REYKJAVIK  
**Handling Restrictions:** n/a  
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**Line Count:** 138  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** CunninFX  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 29 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <29 APR 2003 by BoyleJA>; APPROVED <02 OCT 2003 by CunninFX>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** ICELAND - SOVIET UNION SIGN FIVE YEAR TRADE AGREEMENT  
**TAGS:** EEWT, IC, UR  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006